

Message Text

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PAGE 01 BONN 11818 01 OF 06 271912Z
ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01
DOE-15 SOE-02 L-03 PA-02 ABF-01 /138 W
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FM AMEMBASSY BONN
TO SECSTATE WASHDC 9743
DEPARTMENT TREASURY
INFO AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
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UNCLAS SECTION 01 OF 06 BONN 11818

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DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAG: ECON, EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS IN GERMANY
(JUNE 20 - 26)

REF: BONN 11354 AND BONN 1068

1. SUMMARY. SUBJECTS COVERED: FINANCE MINISTER CONDIT-
IONS TAX RELIEF FOR 1979; FORMER BUNDESBANK PRESIDENT
OPPOSES TAX REDUCTION; 1979 FRG BUDGET PROVISIONALLY
CALLS FOR 6.9 PERCENT NOMINAL EXPENDITURE RISE;
PARLIAMENT APPROVES ENERGY CONSERVATION PROGRAM;
KIEL INSTITUTE SEES HIGHER GROWTH RATE PERHAPS CON-
TINUING INTO 1979; IFO SURVEY INDICATES BUSINESSMEN
UNCLASSIFIED

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PAGE 02 BONN 11818 01 OF 06 271912Z

RAISING 1978 INVESTMENT OUTLAYS; IFO STUDY SEES MID-
TERM FULL EMPLOYMENT CONTINGENT ON STRONGER INVESTMENT
STRATEGY AND SOME WORK-SHARING; CENTRAL BANK MONEY
GROWTH ACCELERATES; CURRENT ACCOUNT SURPLUS IN MAY
(TABLE); FOREIGN EXCHANGE MARKET (TABLE); MONEY MARKET
TIGHTENS (TABLE); BUNDESBANK FOREIGN POSITION;
BANK LIQUIDITY INCREASES; BOND MARKET PRICES DECLINE

(TABLE); FOREIGN DM BONDS; ECONOMIC INDICATORS (TABLES).

2. MATTHOEFER ON ECONOMIC STIMULATION AND TAX REFORM

IN AN INTERVIEW WITH THE WEEKLY DER SPIEGEL, FINANCE MINISTER HANS MATTHOEFER IS QUOTED AS MAKING ANY TAX REDUCTION FOR 1979 CONTINGENT ON SUBSEQUENT ECONOMIC DATA AND ON THE OUTCOME OF THE ECONOMIC SUMMIT. ANY PROGRAM FOR TAX RELIEF DECIDED ON IN 1978, HE SAID, WOULD HAVE TO CONTAIN THREE COMPONENTS: 1) PROVIDE FOR MORE INVESTMENT IN INFRASTRUCTURE AND FOR RESEARCH, DEVELOPMENT AND NEW TECHNOLOGY; 2) IMPROVE THE INVESTMENT CLIMATE; 3) CONTAIN A SOCIAL ELEMENT. AS EXAMPLES OF THE LATTER HE MENTIONED AN INCREASE IN CHILDREN'S ALLOWANCES AND MODIFICATIONS IN PERSONAL INCOME TAXES. MATTHOEFER CONFIRMED THAT CONSIDERATION WAS BEING GIVEN TO MEASURES INVOLVING DM 12 BILLION IN BUDGETARY COSTS, "PROVIDING FINANCING CAN BE ARRANGED." ON THE QUESTION OF PERSONAL INCOME TAX REFORM, MATTHOEFER SAID THAT HE WAS NOT COMPLETELY EXCLUDING ANYTHING, HOWEVER, THAT FOR ADMINISTRATIVE REASONS IT WOULD BE ALMOST IMPOSSIBLE

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PAGE 01 BONN 11818 02 OF 06 271913Z
ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02
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INFO AMEMBASSY BRUSSELS
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UNCLAS SECTION 02 OF 06 BONN 11818

TO ARRANGE SUCH A REFORM BY THE BEGINNING OF 1979.

3. KLASSEN OPPOSES TAX REDUCTIONS

FORMER BUNDESBANK PRESIDENT KARL KLASSEN IS REPORTED TO HAVE EXPRESSED OPPOSITION TO A TAX CUT IN AN INTERVIEW WITH THE BILD ZEITUNG. KLASSEN SAID THAT IN HIS VIEW THE FRG SHOULD NOT GIVE IN TO PRESSURE AT THE BONN ECONOMIC SUMMIT FOR ADDITIONAL STIMULATION OF THE ECONOMY. " WE HAVE NO CRISIS THAT MAKES TAX REDUCTIONS URGENTLY NECESSARY; OUR INFLATION RATE IS RELATIVELY SMALL; THE ECONOMY IS AGAIN ON THE UPSWING; THE NUMBER OF UNEMPLOYED IS DECLINING."

4. FEDERAL BUDGET FOR 1979 PROVISIONALLY SET AT OVER DM 200 BILLION

FINANCE MINISTER HANS MATTHOEFER REPORTEDLY TOLD THE UNCLASSIFIED

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PAGE 02 BONN 11818 02 OF 06 271913Z

NORTH GERMAN RADIO OVER THE WEEKEND THAT THE 1979 FEDERAL BUDGET HAD BEEN PROVISIONALLY SET AT A 6.9 PERCENT HIGHER (NOMINAL) EXPENDITURE LEVEL THAN THE 1978 BUDGET (DM 188.7). ACCORDING TO PRESS REPORTS, MATTHOEFER INDICATED THAT NEGOTIATIONS WITH HIS CABINET COLLEAGUES OVER EXPENDITURE LEVELS WERE NOW LARGELY COMPLETED. STILL UNDER DISCUSSION, HOWEVER, IS DM 1.5 BILLION FOR THE DEFENSE MINISTRY, ACCORDING TO MATTHOEFER. DEFENSE MINISTER APEL IS REPORTEDLY HOLDING OUT FOR THIS ADDITIONAL AMOUNT AS NECESSARY TO MEET THE NATO TARGET OF A THREE PERCENT REAL INCREASE IN DEFENSE EXPENDITURE FOR 1979.

5. ENERGY CONSERVATION PROGRAM READY TO BE SIGNED INTO LAW:

THE BUNDESTAG/BUNDESRAT CONFERENCE COMMITTEE'S COMPROMISE PROPOSAL ON THE DM 4.35 BILLION FIVE-YEAR FEDERAL/ STATE ENERGY CONSERVATION PROGRAM HAS BEEN APPROVED BY BOTH HOUSES AS GENERALLY EXPECTED (SEE BONN 11354). IT IS NOW READY TO BE SIGNED INTO LAW AND WILL BECOME EFFECTIVE JULY 1, 1978. THUS, OWNERS OF BUILDINGS EFFECTING ENERGY-SAVING INVESTMENTS CAN NOW CHOOSE BETWEEN A DIRECT SUBSIDY AMOUNTING TO 25 PERCENT OF INVESTMENT COSTS OR TEN PERCENT ANNUAL DEPRECIATION OVER A PERIOD OF TEN YEARS.

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PAGE 01 BONN 11818 03 OF 06 271918Z
ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
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INFO AMEMBASSY BRUSSELS
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AMEMBASSY PARIS
AMEMBASSY ROME
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UNCLAS SECTION 03 OF 06 BONN 11818

6. KIEL INSTITUTE SEES HIGHER GROWTH RATE FOR SECOND
HALF OF 1978:
ACCORDING TO PRESS REPORTS, THE KIEL INSTITUTE IN
ITS LATEST HALF YEARLY REPORT ON THE ECONOMIC
SITUATION CONCLUDES THAT THE GERMAN ECONOMY WILL
PICK UP IN THE SECOND HALF OF 1978. THE INSTITUTE'S
FORECAST IS RESERVED ABOUT THE CHANCES THAT HIGHER
GROWTH CAN BE SUSTAINED INTO 1979. WITH APPROPRIATE
MONETARY, BUDGETARY AND WAGE POLICIES, IT SAYS, A
3.5 PERCENT RATE COULD BE REACHED. AN INCREASE
IN INFLATIONARY PRESSURES IS FORESEEN AS LIKELY BY
THE INSTITUTE AS A RESULT OF EXTREMELY HIGH MONETARY
EXPANSION. IN THIS CONNECTION THE REPORT CITES
THE POSSIBILITY OF HIGHER RAW MATERIAL PRICES,
CESSATION OF DOWNWARD PRESSURE ON PRICES RESULTING
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PAGE 02 BONN 11818 03 OF 06 271918Z

FROM DM APPRECIATION, AND REPRESSED PROFIT MARGINS
IN MANY INDUSTRIES. IN THE INSTITUTE'S VIEW, A

CONTINUATION OF THE ECONOMIC UPSWING COULD FORCE
THE INFLATION RATE UP TO FOUR PERCENT.

7. IFO SURVEY INDICATES INDUSTRIAL INVESTMENT IN 1978
UP BY 5 PERCENT:

THE IFO INSTITUTE REPORTS THAT A MARCH/APRIL SURVEY OF
4,000 INDUSTRIAL FIRMS (ACCOUNTING FOR ABOUT HALF OF
ALL INDUSTRIAL INVESTMENT) INDICATES THAT INDUSTRIAL
INVESTMENT WILL RISE IN REAL TERMS BY ABOUT 5 PERCENT
(IN NOMINAL TERMS, 8 PERCENT) IN 1978. SECTORS PLANNING
A LARGE EXPANSION IN THEIR INVESTMENT OUTLAYS IN 1978
ARE INVESTMENT GOODS (13 PERCENT NOMINAL INCREASE) AND
ENGINEERING (16). INVESTOR DEMAND, THE SURVEY FINDS,
IS GREATEST FOR VEHICLES AND FOR OFFICE AND DATA
PROCESSING EQUIPMENT. BUSINESSMEN INDICATE THAT 40
PERCENT OF THEIR INVESTMENT WILL BE MADE FOR PURPOSES OF
RATIONALIZATION, 36 PERCENT FOR REPLACEMENT OF PLANT AND
EQUIPMENT, AND THE REMAINDER FOR PLANT EXPANSION. THE
RELATIVELY LOW PROPORTION OF EXPANSION-TYPE INVESTMENT
IS ATTRIBUTED TO AN 80 PERCENT RATE OF CAPACITY UTILI-
ZATION BY INDUSTRY.

8. IFO PESSIMISTIC ON LONG-TERM EMPLOYMENT PROSPECTS:
AN IFO STUDY COMES TO THE CONCLUSION THAT FULL EMPLOY-
MENT OVER THE LONG-TERM CAN PROBABLY BE ATTAINED ONLY
THROUGH A REDUCTION OF WORK HOURS. ACCORDING TO THE
HANDELSBLATT, THE IFO STUDY SHOWS THAT GNP WOULD HAVE
TO INCREASE BY 5 PERCENT YEARLY TO MAINTAIN FULL EMPLOY-
MENT IN THE PERIOD TO 1990. DURING 1975-1990 THE WORK
FORCE BETWEEN THE AGES OF 15 AND 65 WILL HAVE INCREASED
BY 2.6 MILLION (EVEN THOUGH THE TOTAL POPULATION
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PAGE 03 BONN 11818 03 OF 06 271918Z

DECREASES BY 3.2 MILLION), WHILE WORKER PRODUCTIVITY
IS EXPECTED TO CONTINUE ITS RAPID INCREASE. A 4 PER-
CENT YEARLY RATE OF GNP GROWTH, WHICH IS VIEWED AS AN
OPTIMISTIC ASSUMPTION, WOULD IMPLY A STEADILY RISING
LEVEL OF UNEMPLOYMENT. THE IFO STUDY ARGUES AGAINST A
STRATEGY OF SECURING JOBS BY SLOWING DOWN TECHNOLOGICAL
CHANGE ON THE GROUNDS THAT A HIGH WAGE COUNTRY CANNOT
ISOLATE ITSELF FROM CHANGES WHICH WILL BE TAKING PLACE
BEYOND ITS BORDERS. THE STUDY CALLS FOR A MORE ACTIVE
GOVERNMENT INVESTMENT STRATEGY TO ASSURE MORE JOBS
BUT NONETHELESS CONCLUDES THAT SOME WORK SHARING WILL
BE NECESSARY EVEN THOUGH THIS IS NOT THE OPTIMAL SOLU-
TION TO THE EMPLOYMENT PROBLEM.

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PAGE 01 BONN 11818 04 OF 06 271923Z
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DEPARTMENT TREASURY
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AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO

UNCLAS SECTION 04 OF 06 BONN 11818

9. CENTRAL BANK MONEY:

IN MAY, THE GROWTH OF CENTRAL BANK MONEY (CBM) ACCELERATED AGAIN. CBM INCREASED BY DM 1.1 BILLION TO DM 133.4 BILLION 1/. THIS INCREASE FOLLOWS RELATIVELY MODERATE INCREASES OF DM 0.6 BILLION IN APRIL AND DM 0.5 BILLION IN MARCH, BUT VERY LARGE INCREASES IN FEBRUARY (DM 1.4 BILLION) AND JANUARY (DM 2.4 BILLION). IF THROUGHOUT 1978 CBM CONTINUES TO INCREASE AT THE GROWTH RATE OF THE FIRST FIVE MONTHS, AN 11.2 PERCENT INCREASE OF CBM WOULD RESULT (1978 AVERAGE OVER 1977 AVERAGE).

1/ NOTE: IN CALCULATING CENTRAL BANK MONEY THE BUNDESBANK NOW EXCLUDES HOLDINGS BY BANKS OF LEGAL TENDER FROM CURRENCY IN CIRCULATION BECAUSE SINCE MARCH OF THIS YEAR THE BANKS ARE ALLOWED TO COUNT SUCH HOLDINGS AS
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PAGE 02 BONN 11818 04 OF 06 271923Z

MINIMUM RESERVE HOLDINGS (SEE BONN 1068). IF SUCH

HOLDINGS WERE TO BE INCLUDED IN CURRENCY IN CIRCULATION,
THE LEVEL OF CBM IN MAY WOULD BE ABOUT DM 137.8 BILLION.

10. FRG CURRENT ACCOUNT IN MAY:

IN MAY, ACCORDING TO PRELIMINARY NON-SEASONALLY ADJUSTED
DATA, THE FRG TRADE BALANCE WAS IN SURPLUS BY DM 3.0
BILLION AND THE CURRENT ACCOUNT IN SURPLUS BY DM 0.6
BILLION. THE TRADE AND CURRENT ACCOUNT DEVELOPED AS
FOLLOWS:

FRG CURRENT ACCOUNT

(NON-SEASONALLY ADJUSTED, IN DM BILLION)

MAY

1977 1978 PCT. CHANGE

EXPORTS F.O.B. 22.7 22.5 -1.1

IMPORTS C.I.F. 19.1 19.4 #1.7

TRADE ACCOUNT 3.6 3.0

SERVICES 1/ AND

TRANSFERS, NET -2.5 -2.4

CURRENT ACCOUNT 1.1 0.6

JANUARY - MAY

EXPORTS F.O.B. 111.2 113.7 #2.2

IMPORTS C.I.F. 95.8 98.7 #3.1

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PAGE 03 BONN 11818 04 OF 06 271923Z

TRADE ACCOUNT 15.5 15.0

SERVICES, NET 1/ -3.8 -0.4

TRANSFERS, NET -7.1 -9.2

CURRENT ACCOUNT 4.5 5.4

FIGURES DO NOT ALWAYS ADD UP DUE TO ROUNDING.

1/ INCLUDING TRADE SUPPLEMENTS.

11. FOREIGN EXCHANGE MARKET:

DURING THE PERIOD UNDER REVIEW FRANKFURT SPOT AND
FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

SPOT DOLLARS	FORWARD DOLLARS
(IN DM PER \$1.--)	(IN PCT. PER ANNUM)

OPENING FIXING CLOSING ONE-MONTH THREE-MONTH

	OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MONTH
JUNE 20	2.0875	2.0812	2.0835	-4.9	-5.3
21	2.0730	2.0778	2.0730	-4.3	-5.1
22	2.0800	2.0808	2.0860	-4.9	-5.3
23	2.0820	2.0810	2.0775	-4.7	-5.2
26	2.0720	2.0753	2.0745	-5.2	-5.3
27	2.0810	2.0801	N.A.	N.A.	N.A.

UNCLASSIFIED

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PAGE 01 BONN 11818 05 OF 06 271928Z
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INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02
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AMEMBASSY PARIS
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UNCLAS SECTION 05 OF 06 BONN 11818

12. MONEY MARKET:
THE GERMAN MONEY MARKET TIGHTENED SLIGHTLY DURING THE
REPORTING PERIOD. EXPLANATORY FACTORS WERE THE
DISCONTINUATION OF THE SPECIAL REDISCOUNT FACILITY BY
THE BUNDESBANK (SEE BONN 11354) AND THE MAJOR MID-JUNE
TAX DATE. DURING THE REPORTING PERIOD FRANKFURT
INTERBANK MONEY RATES DEVELOPED AS FOLLOWS:

CALL MONEY	ONE-MONTH	THREE-MONTH
-----	-----	-----

JUNE 19	3.50-3.55	3.55	3.65
20	3.50-3.60	3.55	3.65
21	3.50-3.60	3.55	3.65
22	3.50-3.60	3.55	3.65
23	3.50-3.60	3.60	3.70

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PAGE 02 BONN 11818 05 OF 06 271928Z

26	3.50-3.60	3.60	3.70
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13. BUNDESBANK FOREIGN POSITION:

DURING THE PERIOD JUNE 8-15 THE BUNDESBANK'S NET FOREIGN POSITION DECLINED BY DM 0.5 BILLION TO DM 88.5 BILLION. THE BUNDESBANK ATTRIBUTED THE DECLINE PARTLY TO REPAYMENTS OF THE FEDERAL RESERVE BANK OF NEW YORK UNDER SWAP ARRANGEMENTS WITH THE BUNDESBANK AND PARTLY TO FOREIGN PAYMENTS OF THE FEDERAL GOVERNMENT. FOREIGN EXCHANGE HOLDINGS INCREASED BY DM 7 MILLION WHILE CREDITS TO FOREIGN MONETARY AUTHORITIES OTHER THAN THE EUROPEAN MONETARY FUND DECLINED BY DM 28 MILLION. FOREIGN LIABILITIES INCREASED BY ABOUT DM 480 MILLION.

14. BANK LIQUIDITY

DURING THE SAME PERIOD BANK LIQUIDITY INCREASED BY DM 0.9 BILLION. THE MAJOR FACTOR INCREASING LIQUIDITY WAS A DM 3.8 BILLION DECLINE IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK. OTHER FACTORS, NET, INCREASED LIQUIDITY BY DM 0.1 BILLION. BASIC FACTORS REDUCING LIQUIDITY WERE FIRST PAYMENTS FOR THE MAJOR MID-JUNE TAX DATE AND BORROWINGS OF THE FEDERAL GOVERNMENT. THIS INCREASED FEDERAL GOVERNMENT ASSETS HELD AT THE BUNDESBANK BY DM 1.5 BILLION AND STATE GOVERNMENT ASSETS BY DM 1.8 BILLION WHILE ASSETS OF OTHER PUBLIC AUTHORITIES DECLINED BY DM 0.8 BILLION. ANOTHER FACTOR REDUCING LIQUIDITY WAS THE ABOVE-MENTIONED DECLINE IN THE BUNDESBANK'S FOREIGN POSITION.

THE BANKS USED THE INCREASE IN LIQUIDITY TO REDUCE NORMAL REDISCOUNT BORROWINGS BY DM 0.6 BILLION, SPECIAL REDISCOUNT BORROWINGS BY DM 0.2 BILLION AND LOMBARD BORROWINGS BY DM 0.1 BILLION.

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PAGE 03 BONN 11818 05 OF 06 271928Z

15. BOND MARKET:

PRICES FOR DOMESTIC BONDS DECLINED. ACCORDING TO THE PRESS, AVERAGE YIELDS OF OUTSTANDING DOMESTIC BONDS

BROKEN DOWN BY REMAINING MATURITY WERE AS FOLLOWS:

REMAINING MATURITY

(YEARS)	1	3	5	7	9	10
JUNE 23	4.25	5.55	5.85	6.25	6.45	6.50
JUNE 16	4.15	5.25	5.70	6.10	6.30	6.35

THE FEDERAL GOVERNMENT HAS SOLD PROMISSORY NOTES CARRY-
ING MATURITIES OF FOUR TO TEN YEARS AND YIELDS RANGING
FROM 5.50 PERCENT (FOUR YEARS) TO 6.35 PERCENT (TEN
YEARS). THE GOVERNMENT REPORTEDLY SOLD SUCH NOTES IN
AN AMOUNT OF DM 1.3 TO 1.5 BILLION. THE NEXT DOMESTIC
LOAN WILL BE A DM 150 MILLION LOAN OF THE SAARLAND TO
BE OFFERED ON JUNE 28. THE LOAN WILL CARRY A COUPON OF
6 PERCENT, AN ISSUE PRICE OF 98.50 AND A MATURITY OF
TEN YEARS.

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PAGE 01 BONN 11818 06 OF 06 271931Z
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INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
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AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO

UNCLAS SECTION 06 OF 06 BONN 11818

16. FOREIGN DM BONDS:

ON THE MARKET FOR FOREIGN DM BONDS THE FOLLOWING ISSUES
HAVE BEEN ANNOUNCED:

REPUBLIC OF AUSTRIA (PRIVATE PLACEMENT): DM 100 MILLION,
COUPON 5 3/4 PERCENT, ISSUE PRICE 100, MATURITY TEN
YEARS WITH REPAYMENT BEGINNING AFTER FIVE YEARS;

AUSTRIAN INDUSTRIEVERWALTUNGS-AG (PRIVATE PLACEMENT):
DM 20 MILLION; CONDITIONS ARE EXPECTED TO BE A COUPON
OF 5 1/2 PERCENT, AN ISSUE PRICE OF 100, AND MATURITY
OF SEVEN YEARS;

JAPANESE CITY OF KOBE: DM 100 MILLION, 5 3/4 PERCENT,
EIGHT YEARS, ISSUE PRICE PROBABLY 99 1/2;
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PAGE 02 BONN 11818 06 OF 06 271931Z

JAPANESE FIRM SANYO ELECTRIC: CONVERTIBLE BONDS OF
DM 150 MILLION, COUPON 3 3/4 PERCENT, MATURITY TEN YEARS.

17. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

SEASONALLY ADJUSTED DATA

	FEB	MARCH	APRIL	MAY
	----	----	----	----
RETAIL SALES VOLUME				
(1970 EQUALS 100)	121	123	122	--
VOLUME OF TRADE				
(DM BILLION)				
EXPORTS	16.64	17.35	17.77	--
IMPORTS	15.23	15.06	15.98	--
BUILDING PERMITS FOR				
HOUSING UNITS				
(1970 EQUALS 100)	83	85	--	--
LIVING COSTS				
(1970 EQUALS 100)	148.8	149.3	149.5	149.9
INDUSTRIAL PRODUCER				
PRICES				
(1970 EQUALS 100)	144.9	145.1	145.1	145.6
AGRICULTURAL PRODUCER				
PRICES				
(1970 EQUALS 100)	140.5	139.2	137.1	--
INDUSTRIAL WAGES				
PER EMPLOYEE				
(1970 EQUALS 100)	195	192	--	--
UNEMPLOYMENT				
THOUSANDS	1,012	1,014	990	997
PERCENT OF LABOR				
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PAGE 03 BONN 11818 06 OF 06 271931Z

FORCE 4.5 4.5 4.4 4.4

NON-SEASONALLY ADJUSTED FIGURES

	FEB	MARCH	APRIL	MAY
INDUSTRIAL PRODUCER				
PRICES 1/	1.0	1.0	0.8	1.0
NEWLY LICENSED PASSENGER				
CARS				
THOUSANDS	205.1	305.8	271.2	242.6
PERCENT CHANGE 1/	-7.1	-1.1	3.8	-4.1

1/ PERCENT CHANGE FROM
PREVIOUS YEAR'S LEVEL.

THE TREND TOWARD A SLOWDOWN OF CONSUMER PRICES CONTINUES. LIVING COSTS IN NORTHRHINE-WESTFALIA IN JUNE EXCEEDED COMPARABLE 1977 LEVELS BY 2.3 PERCENT. IN APRIL AND MAY THE YEAR-OVER-YEAR INCREASE CAME TO 3.0 AND 2.6, RESPECTIVELY. PRELIMINARY SEASONALLY ADJUSTED BUNDESBANK GNP ESTIMATES FOR THE FIRST QUARTER 1978 WERE REPORTED IN BONN 11709. STOESEL

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Line Count: 631
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: fa2d667f-c288-dd11-92da-001cc4696bcc
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TAGS: ECON, EFIN, GE
To: STATE TRSY MULTIPLE
Type: TE
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